



United States Department of Agriculture

FEB 5 2013

Office of the Secretary
Washington, D.C. 20250

The Honorable Barbara Mikulski
Chairwoman
Committee on Appropriations
United States Senate
Room S 128, The Capitol
Washington, D.C. 20510

Dear Madam Chair:

Thank you for your letter of January 18, 2013, requesting additional information on the impact of potential across-the-board spending cuts on the Department of Agriculture's (USDA) operations. Like you, I am very concerned about the impact of the March 1 sequester on the American economy, specifically in the areas of food, agriculture, natural resources, rural development, nutrition, and related issues.

Since fiscal year (FY) 2010, USDA's operating budget has been reduced by about \$3 billion, or 12 percent. As part of our Blueprint for Stronger Service, USDA has saved taxpayers millions in travel and printing costs and is consolidating more than 700 different cell phone contracts into about 10. We are also pursuing other cost reduction efforts in several areas such as sourcing uniforms from the AbilityOne Strategic Alliance, standardizing bulk mail and processes, and implementing a "Shared First" acquisition policy to consolidate IT-related acquisitions. What's more, the Department is achieving significant savings by closing more than 250 domestic and foreign offices while ensuring that the vital services they provide are not cut.

If Congress does not act before March 1, it is estimated that the across-the-board spending cuts would indiscriminately reduce funding for USDA programs further by almost \$2 billion in FY 2013. About two thirds of these cuts would come from programs funded by discretionary appropriations under the Committee's jurisdiction. While the Department is still developing plans on how to operate under a sequester, agencies have already taken actions—in addition to those mentioned above—to prepare for additional funding reductions through prudent practices such as hiring freezes and limiting operating costs. Should a sequestration occur, we would likely need to implement furloughs impacting about a third of our workforce, as well as other actions. These furloughs and other actions would severely disrupt our ability to provide the broad range of public services we administer. Examples of these programmatic impacts include:

- A reduction of 600,000 low-income women and children who could receive nutrition assistance and associated nutrition education and breastfeeding support through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). WIC has been shown to provide important improvements in nutrition of women and children, lower health care costs, and improved cognitive development of children.
- A nationwide shutdown of meat and poultry plants during a furlough of inspection personnel. The furlough could result in as much as 15 days of lost production, costing roughly over \$10 billion in production losses, and industry workers would experience over \$400 million in lost wages. Consumers would experience limited meat and poultry supplies, and potentially higher prices, and food safety could be compromised.

- Elimination of rental assistance for more than 10,000 very low income rural residents, generally elderly, disabled, and single female heads of households. With an average monthly income of approximately \$803, these Americans are the least able to absorb rent increases and would face very limited options for alternate housing if landlords increase rents to cover the loss of the rental assistance payments.
- A curtailing of conservation technical and financial assistance to approximately 11,000 producers and landowners, thereby limiting benefits to water quality and quantity, soil erosion, and wildlife habitat that benefit the public.
- Increased risk to communities from wildfires with as many as 200,000 fewer acres treated for hazardous fuels.
- A loss of over \$60 million resulting in more than 100 fewer grants awarded for agricultural research conducted by both university scientists and private partners, disrupting critical progress being made in many topical areas such as water, nutrient management, bioenergy production, animal and plant disease, and childhood obesity.
- A reduction in assistance to States for pest and disease prevention, surveillance, and response, potentially leading to more extensive outbreaks and economic losses to farmers and ranchers.
- Furloughs and other reductions in a number of USDA agencies that would limit the ability to provide program oversight, leading to potentially higher levels of erroneous payments and/or fraud. Even small increases in improper payments have large public costs given the magnitude of programs involved.

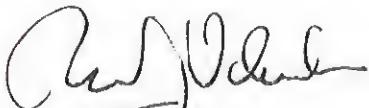
Additional information on impacts covering selected accounts is enclosed.

In addition to impact to programs under the Committee's jurisdiction, a third of USDA's sequestered funds would come from mandatory programs, including those authorized through the Farm Bill. While plans are still being developed on how the sequester would be implemented for these programs, reductions have the potential to impair important elements of support for agriculture and the environment, including disaster assistance, conservation, and export enhancement programs.

I deeply hope that Congressional leaders will reach an agreement to achieve deficit reduction while averting an across-the-board cut. I look forward to working with Congress to preserve the many priorities of rural America while making sensible program reforms and reductions that will lead to deficit reduction.

Again, thank you for writing.

Sincerely,



Thomas J. Vilsack
Secretary

Enclosure

Additional Sequestration Information

Bureau: Food and Nutrition Service

Program: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Sequestration Amount: \$333 million

Impact:

Grants to States

- WIC is a federally funded program. If funding is inadequate to maintain the current caseload—as it would be under sequestration—State WIC programs would have to reduce participation and establish waiting lists using the priority system provided in regulation.
- A full year continuing resolution, coupled with sequestration, will result in a budget authority of about \$6.3 billion. Using all available resources, including carryover and all contingency funds, will allow the program to support about 8.6 million participants—a reduction of approximately 300,000 participants on an annual basis from last year or about 600,000 participants if the reductions are compressed in the last two quarters of the fiscal year.
- Even before sequestration occurs, States may begin to implement cost-cutting strategies sometime in February. These strategies could range from reducing clinic hours, closing clinics, to establishing waiting lists as a last resort.
- When funds are not sufficient to support caseload, WIC agencies implement a priority waiting list of individuals. The first to lose benefits would be non-breastfeeding postpartum women and individuals certified solely due to homelessness or migrancy. African-American women have the lowest breastfeeding rates so they are more likely to represent a significant proportion of these women.
- Nutrition Services and Administration funding provided to States would be reduced by about \$75-100 million from the fiscal year (FY) 2012 level, which could result in up to 1,600 State and local jobs lost.

Bureau: Food Safety and Inspection Service (FSIS)

Program: Salaries and Expenses

Sequestration Amount: \$51 million

Impact: Sequestration would result in an across-the-board furlough of as much as 15 days for all FSIS employees, including inspectors. Since Federal law mandates inspection of meat, poultry, and egg products, production will shut down for that time period, impacting approximately 6,290 establishments nationwide. Due to lost production volume of more than 2 billion pounds of meat, an additional 2.8 to 3.3 billion pounds of poultry and over 200 million pounds of egg products, the industry would experience a production loss of over \$10 billion. Consumers would experience a shortage of meat, poultry, and egg products available for public consumption, and the shortage may result in price increases for these products. Restaurants, grocers, local merchants, and others who rely on FSIS-inspected products would suffer multiplier effects from the shortfall in production. The impact could force smaller businesses and merchants out of business. Industry workers would also be furloughed, resulting in over \$400 million in lost

Enclosure

Page 2

wages. The livestock industry would also incur additional costs for disruption of the pipeline from farms to production establishments as farmers and livestock producers would have to feed and store animals longer than anticipated.

FSIS would also eliminate export inspections, resulting in losses for U.S. producers and causing additional storage costs and or loss of product. Export inspections could adversely affect other nations since the volume of products would decline. Furthermore, public food safety could be compromised by the illegal selling and distribution of uninspected meat, poultry, and egg products. Because FSIS is also responsible for verifying the safety of imported products, cutting import inspections would result in a reduction of 154 to 178 million pounds of imported meat, poultry, and egg products entering the country, in addition to the lost production capacity within the United States. Cutting import inspections might be construed as an international trade issue. Moreover, there is limited storage space along the border so that unless foreign countries stopped shipments, chill/frozen storage capacity and refrigerated truck/train/ship capacity would be compromised.

Bureau: Rural Development, Rural Housing Service

Program: Rental Assistance

Sequestration Amount: \$46 million

Impact: The Rental Assistance Program provides assistance to eligible low-income tenants in USDA-financed multi-family housing so that Americans pay no more than 30 percent of their incomes for rent. Approximately 286,000 tenants receive the benefit of rental assistance in almost all of the apartment complexes financed by Rural Development. The sequestration would cause more than 10,000 current recipients to lose rental assistance. The average monthly income of families and individuals receiving rental assistance (generally female-headed households, elderly, and the disabled) is approximately \$803. These Americans are the least able to absorb any increase in the rent due to the loss of rental assistance. Loss of this rent supplement may cause property owners to increase rents, making the units unaffordable to the very low income residents who have few options for decent, affordable housing.

With the loss of rental assistance, or higher vacancies resulting from very low-income Americans being unable to afford higher rents, many properties will be unable to pay all of their operating costs. Owners may be unable to maintain the property and allow it to fall into disrepair, or the properties may become delinquent in their loan payments. Potentially, 411 projects may become delinquent by October 2013. Ongoing delinquencies will lead to defaults and foreclosure and may result in long-term loss of affordable housing in rural communities in future years.

The loss of rental assistance supporting new construction of Farm Labor housing would result in the loss of affordable housing for approximately 28 farm workers and their families; the loss of rental assistance supporting construction of multi-family assisted housing would result in the loss of affordable housing opportunities for 17 low or very low income families.

Enclosure

Page 3

Bureau: Natural Resources Conservation Service (NRCS)

Program: Conservation Operations and Farm Security and Rural Investment Programs

Sequestration Amount: \$222 million

Impact: NRCS will implement a hiring freeze and reduce travel and other costs. This will impact NRCS' ability to ensure timely, complete conservation planning activities and delivery of financial assistance, which would affect program accomplishments and service to farmers and ranchers nationwide. This would result in longer timeframes to address these challenges continuing to put at risk the business operations of the agency. In addition, NRCS would implement significant cuts in agreements and contracts with non-Federal entities by over \$20 million in technical assistance and about \$109 million in financial assistance. These reductions will have a deleterious impact on the ability to provide technical and financial assistance services to conservation customers, resulting in reduced conservations opportunities and reduced natural resource benefits with short and long effects on the Nation's private lands.

Overall, these cuts will undercut the ability to support priorities including landscape-scale conservation, water quality improvements, wildlife habitat protection, open space protection, as well as natural infrastructure restoration, carbon sequestration, weather prediction capacity, plant material development and other programs and services that support extreme weather and climate change adaptation and mitigation.

Bureau: Farm Service Agency (FSA)

Program: Farm Loan and Salaries and Expenses

Sequestration Amount: \$80 million

Impact: Sequestration would require reductions of \$80 million in FSA salaries and expenses and farm credit programs. The following highlights address some of the impacts of these reductions.

FSA Program Management:

The sequestration would reduce the spending authority for FSA salaries and administrative expenses by about \$75 million. In order to accomplish this reduction, FSA will implement a number of actions including hiring freezes, reducing contract operations for both Information Technology (IT) and non-IT operations, eliminating states flown in the National Aerial Imagery Program, and furloughing employees up to 5 days. FSA employees are responsible for managing a wide range of programs including farm loans, conservation and disaster activities with budgets totaling over \$11 billion annually. Reduced ability to effectively manage these major nationwide programs will limit the ability to provide timely support to producers during the ongoing extreme, widespread drought and will erode the capability to provide oversight to limit erroneous payments.

Farm Loan Programs:

FSA provides direct loans to family farmers and ranchers who cannot obtain commercial credit from a bank or other lender. The program is an important source of credit for beginning farmers, who tend to have limited resources and as a result, are less likely to meet commercial credit standards. Extreme drought conditions prevailing in significant areas of the Nation that have weakened the financial condition of agricultural producers significantly increase the importance

Enclosure

Page 4

of these loan programs. Operating loans are used to purchase items such as livestock, feed, farm equipment, fuel, farm chemicals, insurance, minor improvements or repairs to buildings, refinance farm-related debt excluding real estate and other operating costs, including family living expenses. Sequestration would reduce the budget authority for Farm Credit Programs by approximately \$5.4 million (\$35.6 million in program level), meaning that 890 fewer direct farm operating loans and 661 other farm loans could be made. The sequestration of farm loan funding could result in a loss of over 1,650 private sector jobs (plus the hundreds of farmers that would be forced out of farming and into the off-farm job market), reduce the GDP by more than \$259 million, and could reduce household income by \$44 million.

Bureau: Forest Service

Program: Wildland Fire Management

Sequestration Amount: \$134 million

Impact: This level of reduced funds would result in an appropriated funding level that is \$42 million below the calculated 10-year average of fire suppression costs for FY 2013. In addition, a reduction of Preparedness funds typically increases suppression costs since the initial attack success will be reduced. Additionally, 2012 fire transfer funds are subject to sequestration, which results in needing to recover \$20 million of funds repaid. The agency would complete as many as 200,000 fewer acres of hazardous fuel treatments, resulting in an increased risk to communities from wildfires.

Certain decisions may result in increased costs in the end. For example, the agency could reduce upfront costs by reducing use of Exclusive Use aviation contracts, 115 engines, and 10 hotshot crews. However, this could result in larger fires, which will result in higher expenditures.

Bureau: Forest Service

Program: National Forest System (NFS)

Sequestration Amount: \$78 million

Impact: The agency's essential services to the public will be reduced for a variety of high demand activities (recreation, forest and watershed restoration, grazing, mining and oil/gas operations) as a result of reduced operations at campgrounds, visitor information centers, and offices. This would largely occur during the peak use seasons in spring and summer. Thousands of private sector jobs in rural communities across the Nation would be lost due to a reduction of recreation opportunities, and minerals and oil and gas operations, which are completed through contracts, grants, and agreements.

The agency would close up to 670 public developed recreation sites out of 19,000 sites, such as campgrounds, picnic areas, and trailheads. Closing this many recreation sites would reduce an estimated 1.6 million recreation visits across the country, thereby harming the economies of remote rural communities that depend on recreationists' economic activity, and eliminating convenient vacation opportunities for rural residents.

Increased risks to health and safety for visitors to the 193 million acres of public lands would occur as a result of reductions of 35 sworn law enforcement officers, leaving 707 total officers to

Enclosure

Page 5

control drug trafficking organizations, prevent crime, and protect and serve the public. The reduction in sworn officers would result in an increase of illegal activities on National Forest System lands, like arson during fire season, timber theft, and other natural resource crimes.

Forest and watershed restoration work would be curtailed. Timber volume sold would be reduced to 2,379 million board feet from 2,800 million board feet proposed for FY 2013. The agency would restore 390 fewer stream miles, 2,700 fewer acres of lake habitat and improve 260,000 fewer acres of wildlife habitat.

Bureau: National Agricultural Statistics Service (NASS)

Program: Census of Agriculture and Agricultural Estimates

Sequestration Amount: \$8 million

Impact: NASS is responsible for the collection and analysis of a broad range of agricultural statistics and completion of the Census of Agriculture. These statistics provide information critical to decisionmaking by a wide population of stakeholders and ultimately benefit all consumers by enhancing orderly and unbiased market conditions for agricultural products.

Sequestration would stop FY 2013 scheduled activities for the census, causing data processing to be placed on hold and potentially not recoverable. Data will become incomplete and will not be statistically sound for publication. Not having the 2012 census will negatively affect decisions made by farmers, businesses, and governments and ultimately will bring volatility to food markets and impact prices consumers pay. Data collected by the census includes the number of farms, value of land, market value of agricultural production, and inventory of livestock and poultry.

NASS' annual agricultural estimates reports are critically important to assess the current supply and demand in agricultural commodities. These unbiased, timely reports are extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decisionmaking. The statistics disseminated by NASS support fairness in markets ensuring buyers and sellers have access to the same objective official statistics at the same pre-announced time. This prevents markets from being influenced by "inside" information, which might unfairly affect market prices for the gain of an individual market participant. The efficiency of commodity markets is enhanced by the free flow of information, which minimizes price fluctuations for U.S. producers. Statistical measures help the competitiveness of our Nation's agricultural industry and have become increasingly important as producers rely more on world markets for their sales. There is no other source for the statistical surveys, estimates, and reports NASS produces.